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UNCLAS ANKARA 007847

SIPDIS

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SUBJECT: TURKISH MARKETS RALLY ON ELECTION RESULTS

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1. (U) On November 4, Turkish markets reacted positively to the AK Party's landslide victory in parliamentary elections. The lira strengthened very slightly, closing at TL 1,678,000 to the dollar; the Istanbul Stock Exchange 100 index closed up 6.1 percent; the benchmark lira T-bills closed unchanged at 64 percent in annual compounded terms.

2. (SBU) The local T-bill market weakened in the morning, but by afternoon was attracting buyers (rumors say AK Bank, already the largest holder of Turkish bonds, was buying). Market participants expect strong demand in two Treasury auctions to be held November 5, ahead of the November 6 TL 6 quadrillion (about \$3.5 billion) redemption. Foreign investors will likely join these auctions, per JP Morgan/Chase Treasurer Gumisdis who expects rates to decline to 62-63 tomorrow. Yapi Kredi Treasurer Huseyin Imece told us some potential investors stayed out of the market today, given the normal thin volumes, but will likely jump in tomorrow in the large auctions.

3. (SBU) Comment: Turkish market contacts across the board caution that the initial optimism with AK's single party government could quickly fade. Gumisdis said the markets will focus on who AK appoints to be "economy minister" adding that AK old-timers, like Ali Coskun, are not confidence enhancing. However, many of the AK young guard, like Ali Babacan, will be fine.
PEARSON